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SIPDIS

SENSITIVE

DEPARTMENT FOR EUR/SE AND NEA/NGA AND PRM

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SUBJECT: SE TURKEY HOPES FOR ECONOMIC TURNAROUND
FOLLOWING COALITION VICTORY IN IRAQ

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11. (SBU) Summary: Prominent Adana and Mersin businessmen are optimistic for increased economic opportunities relating to the Coalition victory in Operation Iraqi Freedom. They also are hoping to take advantage of the SARS outbreak to export more textiles to Europe. While they believe there may be openings in Iraq for Turkish companies and that trade will soon resume with Iraq, they caution that without significant steps by the GOT and strong relations with the United States, Turkey "has no chance" to improve its economic situation. End summary.

Hopeful for business alliances with Iraq

12. (SBU) Prior to the beginning of Operation Iraqi Freedom, southeastern Turkish businesses were proving to be stagnant as the uncertainty of the war, and its effects, loomed. Businesses, mainly exporters, were finding their international clients looking for alternate suppliers in case Turkish companies could not fulfill their orders. However, according to local business owners, while Turkey remains in a deep economic crisis, the war did not produce any direct negative economic ramifications. Rather, the Coalition's victory in Iraq has the potential to open many economic opportunities for Turkey; "Iraq can, in the long term, buy services and products from Turkey using its oil revenue."

13. (SBU) However, according to our contacts, the re-establishment of Iraq as a major trading partner depends upon the United States' willingness to encourage the new Iraqi government to work with the Turks. The failure of Turkey to play a significant role in the war may have denied Turkey an opportunity to quickly improve its economic situation with contracts in post-war Iraq and with the US economic package. Nonetheless, according to some sources, the failure of the February 2003 motion to allow US troops in Turkey did provide two abstract economic benefits: (1) problems with Turkey's neighbors who did not support the Coalition did not materialize allowing Turkey the opportunity to maintain, perhaps even strengthen, these relationships; and (2) money that would have been received from the USA would have gone directly to the politicians and not to the businesses and people who most need it requiring the Turkish private sector to continue to work hard to overcome the current economic crisis. Whether or not these intangible "benefits" are true, many of our contacts fear the strains caused by the motion's failure in the US-Turkish relationship will cause the US to 'overlook' Turkey in post-war Iraq.

Blaming the USG and GOT for a Weak Turkish Economy

14. (SBU) Some of our contacts expressed strong anger towards the United States for "sidelining" Turkey economically. According to these sources, the US's failure to lift all textile quotas for Turkey, the US's unwillingness to permit Turkey to play a vital role in the reconstruction of Iraq, and the US's failure to "live up to its promises" after the end of the first Gulf War, produced a strain on the US-Turkey relationship. "Now, as the GOT does everything it can to relieve Turkey of its economic problems, the US, our supposed ally, does not show her support (i.e., in the form of waived quotas, guaranteed contracts, et al)."

15. (SBU) "While it is easy to blame the Americans," most businessmen believe Turkey's current economic situation can only be resolved if the GOT takes meaningful steps to streamline its costs and improve the financial climate in Turkey. "Many Turks are frustrated because while Turkey has the resources, people, and knowledge it takes to improve the country, the government has consistently failed to do so."

16. (SBU) According to our sources, four tasks must be achieved by GOT to put Turkey on the road to economic recovery: privatization, population control, smaller government and streamlined government spending, and improved foreign investment policies. Our contacts have consistently stated that privatization would allow for redundant governmental positions to be eliminated and streamlined programs to be implemented. Population control, especially a problem in the Southeast where low education and high birth rates abound, could be achieved with targeted education campaigns. A more manageable population would, in turn, produce less strain on already strained governmental programs. Frustrated businessmen argue current government practices to continue hiring people in an effort to slow unemployment have created false statistics and excessive government spending. Finally, prevailing GOT foreign investment policies must be improved to reflect willingness and desire to have foreign investors in Turkey. Currently bureaucratic procedures involved in investing and establishing foreign companies in Turkey strongly deters would-be investors.

SARS: An Interesting Side Note

17. (SBU) Our contacts also believe the SARS outbreak will drive more contracts to Turkey as people begin to turn away from the Far East in fear of the disease. According to Free Zone leaders, while many Turkish businessmen have sought out these types of contracts, many textile contracts have sought out Turkey as a future supplier.
HOLTZ